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APPLICATION NO.	FILING DATE	FIRST NAMED INVENTOR	ATTORNEY DOCKET NO.	CONFIRMATION NO.
10/614,137	07/07/2003	Allen R. Friedman	36287-04401	9017
27171 7590 08/14/2007 MILBANK, TWEED, HADLEY & MCCLOY 1 CHASE MANHATTAN PLAZA NEW YORK, NY 10005-1413			EXAMINER ALI, MOHAMED HATEM	
			ART UNIT 3693	PAPER NUMBER
			MAIL DATE 08/14/2007	DELIVERY MODE PAPER

Please find below and/or attached an Office communication concerning this application or proceeding.

The time period for reply, if any, is set in the attached communication.

## Office Action Summary

Application No.

10/614,137

Applicant(s)

FRIEDMAN ET AL.

Examiner

Mohamed H. Ali

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3693

-- The MAILING DATE of this communication appears on the cover sheet with the correspondence address --

### Period for Reply

A SHORTENED STATUTORY PERIOD FOR REPLY IS SET TO EXPIRE 3 MONTH(S) OR THIRTY-(30) DAYS, WHICHEVER IS LONGER, FROM THE MAILING DATE OF THIS COMMUNICATION.

- Extensions of time may be available under the provisions of 37 CFR 1.136(a). In no event, however, may a reply be timely filed after SIX (6) MONTHS from the mailing date of this communication.
- If NO period for reply is specified above, the maximum statutory period will apply and will expire SIX (6) MONTHS from the mailing date of this communication.
- Failure to reply within the set or extended period for reply will, by statute, cause the application to become ABANDONED (35 U.S.C. § 133). Any reply received by the Office later than three months after the mailing date of this communication, even if timely filed, may reduce any earned patent term adjustment. See 37 CFR 1.704(b).

### Status

- 1) ☒ Responsive to communication(s) filed on 07 July 2007.
- 2a) ☐ This action is **FINAL**. 2b) ☒ This action is non-final.
- 3) ☐ Since this application is in condition for allowance except for formal matters, prosecution as to the merits is closed in accordance with the practice under *Ex parte Quayle*, 1935 C.D. 11, 453 O.G. 213.

### Disposition of Claims

- 4) ☒ Claim(s) 1-31 is/are pending in the application.
- 4a) Of the above claim(s) \_\_\_\_\_ is/are withdrawn from consideration.
- 5) ☐ Claim(s) \_\_\_\_\_ is/are allowed.
- 6) ☒ Claim(s) 1-31 is/are rejected.
- 7) ☐ Claim(s) \_\_\_\_\_ is/are objected to.
- 8) ☐ Claim(s) \_\_\_\_\_ are subject to restriction and/or election requirement.

### Application Papers

- 9) ☐ The specification is objected to by the Examiner.
- 10) ☐ The drawing(s) filed on \_\_\_\_\_ is/are: a) ☐ accepted or b) ☐ objected to by the Examiner.  
Applicant may not request that any objection to the drawing(s) be held in abeyance. See 37 CFR 1.85(a).  
Replacement drawing sheet(s) including the correction is required if the drawing(s) is objected to. See 37 CFR 1.121(d).
- 11) ☐ The oath or declaration is objected to by the Examiner. Note the attached Office Action or form PTO-152.

### Priority under 35 U.S.C. § 119

- 12) ☐ Acknowledgment is made of a claim for foreign priority under 35 U.S.C. § 119(a)-(d) or (f).
- a) ☐ All b) ☐ Some \* c) ☐ None of:
- ☐ Certified copies of the priority documents have been received.
  - ☐ Certified copies of the priority documents have been received in Application No. \_\_\_\_\_.
  - ☐ Copies of the certified copies of the priority documents have been received in this National Stage application from the International Bureau (PCT Rule 17.2(a)).

\* See the attached detailed Office action for a list of the certified copies not received.

### Attachment(s)

- |                                                                                        |                                                                   |
|----------------------------------------------------------------------------------------|-------------------------------------------------------------------|
| 1) <input checked="" type="checkbox"/> Notice of References Cited (PTO-892)            | 4) <input type="checkbox"/> Interview Summary (PTO-413)           |
| 2) <input type="checkbox"/> Notice of Draftsperson's Patent Drawing Review (PTO-948)   | Paper No(s)/Mail Date. _____                                      |
| 3) <input checked="" type="checkbox"/> Information Disclosure Statement(s) (PTO/SB/08) | 5) <input type="checkbox"/> Notice of Informal Patent Application |
| Paper No(s)/Mail Date <u>08/04/2003</u>                                                | 6) <input type="checkbox"/> Other: _____                          |

## DETAILED ACTION

### *Claim Rejections - 35 USC § 112*

1. The following is a quotation of the second paragraph of 35 U.S.C. 112:

The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter, which the applicant regards as his invention.

2. **Claims 21 and 29-30** are rejected under 35 U.S.C. 112, second paragraph, as being indefinite for failing to particularly point out and distinctly claim the subject matter which applicant regards as the invention.

In the claims 21 and 29-30, the recitations, "a 1-Delta amount of stock", and "a Delta amount of stock" render the claims indefinite as it is unclear what the applicant is referring to.

Clarification is required.

### *Claim Rejections - 35 USC § 102*

3. The following is a quotation of the appropriate paragraphs of 35 U.S.C. 102 that form the basis for the rejections under this section made in this Office action:

A person shall be entitled to a patent unless –

(e) the invention was described in (1) an application for patent, published under section 122(b), by another filed in the United States before the invention by the applicant for patent or (2) a patent granted on an application for patent by another filed in the United States before the invention by the applicant for patent, except that an international application filed under the treaty defined in section 351(a) shall have the effects for purposes of this subsection of an application filed in the United States

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only if the international application designated the United States and was published under Article 21(2) of such treaty in the English language.

4. **Claims 1-5 and 11- 20** are rejected under 35 U.S.C. 102(e) as being anticipated by *Rudkin* (US 2004/0199449 A1).

**As per claim 1**, *Rudkin* discloses a **method** for transfer (see abstract; via transferability) of employee stock options, the method comprising:  
purchasing an employee stock option (see para, 0025; via purchasing ESO to pay a portion of strike price); and  
hedging the employee stock option (see para, 0012 and 0135; via to exercise for liquidity and hedge the risk. option will decrease in value).

**As per claims 2 - 3**, *Rudkin* discloses further step of determining a value of the employee stock option using an option pricing formula is selected from the group consisting of Black-Scholes, binomial and trinomial methods (see para, 0056, 0070, 0078 and 0137- 0140; via ESO binominal module 120, value of the optimal return function and formula).

**As per claims 4 - 5**, *Rudkin* discloses an offering and issuing of securities underlying the employee stock option (see para 0007; via US firms and ESOs).

**As per claim 11**, *Rudkn* discloses a method for transfer (see abstract-transferability) of employee stock options, the method comprising:

determining an economic value of an employee stock option based on an option pricing formula (see para, 0056, 0070, 0078 and 0137- 0140; via ESO binominal module **120**, value of the optimal return function and formula);

making the economic value available to holders of the employee stock option; and exchanging the employee stock option for the economic value (see para 0008 and 0037-0039; via early exercise decision to maximize the utility of terminal economic wealth).

**As per claims 12 - 13**, *Rudkin* discloses the economic value is a cash value and a number of shares (see para 0137 and 0157 [Fig.2-3]; via maximize the terminal utility wealthy with options inherently cash value).

**As per claims 14 -16**, *Rudkin* discloses the step of exchanging occurs periodically within a predetermined window of time and the option pricing formula is selected from the group consisting of Black-Scholes, binomial and trinomial methods (see para, 0056, 0070, 0078 and 0137- 0140; via ESO binominal module 120, value of the optimal return function and formula).

**As per claim 17**, *Rudkin* discloses a **method** for issue of employee stock options, the method comprising:  
issuing an employee stock option with transfer rights (see para 0006; via ESO give an employee the right to purchase share of call option on or before a given date); and  
establishing a beginning date for the transfer rights at a predetermined date following the date of issue of the employee stock option (see para 0014; via ESO can be exercised only after vested a preset number of years).

**As per claim 18**, *Rudkin* discloses the employee stock option includes a vesting date and the beginning date is later than the vesting date (see para 0014; via ESO can be exercised only after vested a preset number of years).

**As per claim 19**, *Rudkin* discloses **a method** for transfer (see abstract-transferability) of employee stock options, the method comprising:

determining a cash value of an underwater employee stock option based on the Black-Scholes option pricing formula (see para 0009; via value of ESOs by more than 50 percent);

publishing the cash value (see para 0150 and Table E); and

exchanging the underwater employee stock option for the cash value during a predetermined window of time (see para 0022; via repricabe ESOs when under water).

### ***Claim Rejections - 35 USC § 103***

5. The following is a quotation of 35 U.S.C. 103(a) which forms the basis for all obviousness rejections set forth in this Office action:

(a) A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made.

6. **Claims 6-10 and 20- 31** are rejected under 35 U.S.C. 103(a) as being unpatentable over *Rudkin* in view of *Sullivan et al* (2002/0194136).

**As per claims 6 –7, *Rudkin*** fails explicitly to disclose either one time or periodically repeating the purchasing and hedging selected from the group consisting of monthly, quarterly, semi-annually and annually.

However, **Sullivan et al** in the same field of invention teaches a concept of purchasing and hedging employee stock options at any time up to maturity (American Style)(see para 0003 and 0015; via option and hedging system).

Therefore, it would have been obvious to one of ordinary skill in the art at the time of invention was made to modify the timing of the purchasing and hedging of employee stock options from the teachings of Sullivan in order to match with the timing of option maturity.

**As per claims 8-10, *Rudkin*** fails explicitly to disclose hedging the employee stock option includes buying and short selling of securities and/or futures contracts and hedging the employee stock option to rebalance the hedge position.

However, *Sullivan* in the same field of invention teaches a concept, how financial institutions utilize listed options over the counter (OTC) for hedging strategies (see para 0009).

Therefore it would have been obvious to one ordinary skill in the art at the time of invention was made to modify the buying- selling options as taught by Sullivan for hedging strategies in order to facilitate in organizing the hedging position.

**As per claim 20, *Rudkin*** discloses exchanging an economic value for an employee stock option, the economic value based on an option pricing formula (see para, 0056, 0070, 0078 and 0137- 0140; via ESO binominal module 120, value of the

optimal return function and formula), but fails explicitly to disclose a method for hedging the employee stock option with a future.

However, *Sullivan* in the same field of invention teaches for individual to hedge employee stock options (see abstract) for derivative securities such as futures and options (see para 0008 and 0009; via hedging and futures).

Therefore, it would have been obvious to one of the ordinary skill in the art at the time of invention was made to modify the concept of hedging for derivative securities in order to hedge the risk of adverse price and market fluctuations.

**As per claim 21**, *Rudkin* discloses the step of borrowing, purchasing and selling a1-Delta amount of stock (See Para 0006 and 0069; via ESOs give an employee the right to purchase and inherently borrowing-selling for hedging transactions of any incremental amounts like Delta)

**As per claim 22**, *Rudkin* discloses the step of determining whether it is optimal to early exercise the future (see Para 0050).

**As per claim 23**, *Rudkin* discloses the step of further determining whether the employee stock option is in the money (See Para 0019; via "in the money").

**As per claim 24**, *Rudkin* discloses further exercising the employee stock option (see Para 0017; via ESOs can be exercised any time after the ESOs vested).

**As per claims 25-26**, *Rudkin* discloses the step of closing out the future position and delivering a prospectus (See Para 0050).

**As per claim 27**, *Rudkin* discloses exchanging an economic value for an employee stock option, the economic value based on an option pricing formula (see



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para, 0056, 0070, 0078 and 0137- 0140; via ESO binominal module 120, value of the optimal return function and formula); but fails explicitly to teach hedging the employee stock option with stock.

However, *Sullivan* in the same field of invention teaches the concept of individual investors dealing with option or other derivatives securities are concerned with hedging stock options (see para 0009).

Therefore, it would have been obvious to one of ordinary skill in the art at the time of invention was made to modify the concept of hedging employee stock with other derivative securities in order to generate additional income.

**As per claims 28-29**, *Rudkin* discloses further step of borrowing an amount of stock equal to the amount of the employee stock options received in the exchange and selling a delta amount of stock (See Para 0006 and 0069; via ESOs give an employee the right to purchase and inherently borrowing-selling for hedging transactions of any incremental amounts like Delta).

**As per claims 30-31** *Rudkin* discloses the borrowing stock, and purchasing-selling a 1-delta amount of stock, monitoring changes in delta and buying or selling stock based on the changes in delta (See Para 0006 and 0069; via ESOs give an employee the right to purchase and inherently borrowing-selling for hedging transactions of any incremental amounts like Delta).

### ***Conclusion***

7. The prior art made of record and not relied upon is considered pertinent to applicant's disclosure.

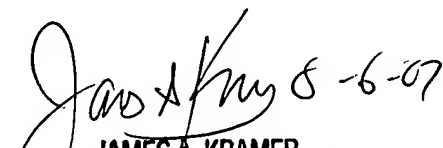
Cristofich et al (US 6,269,346 B1) discloses tock option control and exercise System.

Quinn e al (US 2004/0172349 A1) discloses system and method for safeguarding Employee Stock Option from Stock Price Fluctuations.

8. Any inquiry concerning this communication or earlier communications from the examiner should be directed to Mohamed H. Ali whose telephone number is 571-270-3021. The examiner can normally be reached on 8.00 to 5.30.

If attempts to reach the examiner by telephone are unsuccessful, the examiner's supervisor, James Kramer can be reached on 571-272-6783. The fax phone number for the organization where this application or proceeding is assigned is 571-273-8300.

Information regarding the status of an application may be obtained from the Patent Application Information Retrieval (PAIR) system. Status information for published applications may be obtained from either Private PAIR or Public PAIR. Status information for unpublished applications is available through Private PAIR only. For more information about the PAIR system, see <http://pair-direct.uspto.gov>. Should you have questions on access to the Private PAIR system, contact the Electronic Business Center (EBC) at 866-217-9197 (toll-free). If you would like assistance from a USPTO Customer Service Representative or access to the automated information system, call 800-786-9199 (IN USA OR CANADA) or 571-272-1000.

  
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SUPERVISORY PATENT EXAMINER  
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Mohamed H Ali  
Examiner  
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